



THE CITY OF SAN DIEGO

To City Retirees, Retirement System Members and the Community-At-Large:

Chicken Little would be proud. For the rest of us, it's very disappointing that sensationalism, false accusations and basic inaccuracies regarding the San Diego City Employees Retirement System are capturing attention and creating a panic among city retirees. Many are worried that their monthly pension checks are in jeopardy. That is simply not true.

Here are the facts:

Number 1: There is a problem with the funding of the Retirement System, but it does not present a serious threat to the retirees. The system has suffered the same troubles that have upset nearly every pension plan in America. The sudden and dramatic decline in the investment markets of the last two years, influenced by the 9/11 tragedy, the bursting of the "technology bubble" and a series of corporate debacles, has taken its toll on the Retirement System. Assets have shrunk from a peak of nearly \$2.7 billion in early 2000 to slightly more than \$2.5 billion today.

Such fluctuations occur in the market, but if focus remains on long-term investment strategy, short-term losses should not have a devastating impact on the system. In the last three years, assets as a percentage of liabilities have fallen from 97.3 percent on June 30, 2000, to 77.3 percent on June 30, 2002. In other words, the pension plan was essentially fully funded before the stock market's precipitous drop. Also over the last three years, the gap between the total value of assets and the amount that eventually will have to be paid out for future retirement benefits has grown from \$69 million to \$720 million. That sounds like a giant shortfall, but because of the huge size of the fund, this "unfunded liability" does not represent any immediate threat. And as the market recovers, a wise long-term investment strategy will help close the gap.

Number 2: The city's under funding of its portion of retirement contributions has confused the issue. There have been allegations that the city caused the current funding situation by under funding its contributions and not paying for increased retirement benefits. It's true that as part of a contribution agreement between the City of San Diego and the Retirement System, the city has put off paying some of its contribution for future benefits during

the last six years. However, according to the system's independent advisers, more than 85 percent of the unfunded liability has been caused by investment losses, not under funding by the city. Nevertheless, the city is working on a phased plan to begin fully funding its portion of retirement benefits. While it is important to monitor the impact of benefit changes and employer contributions to the Retirement System, these were not major contributors to the current problem.

Number 3: There is no reason to panic. Retirement plans by their very nature are long-term programs. Nevertheless, short-term volatility in investment markets – particularly bear markets like the current environment – can generate pressure to make drastic changes. In this case, that would be a mistake. The \$2.5 billion in assets the system holds are sufficient to pay the retirees' vested retirement benefits for more than 20 years (at today's payroll) without a single penny of additional contributions or earnings. With scheduled contributions and projected long-term earnings bolstering the fund, the Retirement System will have sufficient assets to pay full vested retirement benefits for all current employees and retirees for as long as they live. The system must stay the course with a long-term asset allocation and investment strategy that will enable it to weather the storm and produce long-term returns adequate to fund the liabilities of the Retirement System.

Number 4: The "13th check" and other contingent benefits are paid out in good times. Unfortunately, these are lean times. While the vested benefits of city retirees are not at risk, their "contingent benefits" are just that – CONTINGENT – and are paid only when there are sufficient current year earnings. There were insufficient earnings to pay contingent benefits last year. It is expected that there will be no earnings this year either. As a result, the contingent benefits, including the "13th check" and the "Corbett retirement supplement," will not likely be paid this year. While this is unfortunate, this is the structure of these contingent benefits according to the Municipal Code, and retirees would be wise not to rely upon these contingent benefits being paid every year.

As the stakeholders wrestle with the issues at hand and the public debate continues, consider these final thoughts: (1) rest assured that city retirees will receive their regular monthly pension checks for vested benefits; (2) don't allow innuendo to throw you into a panic – seek the real facts; (3) call the Retirement System should questions arise; and (4) attend public Retirement Board meetings where these and other issues are discussed openly every month.

Sincerely,

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President and Public Appointee, San Diego City Employees Retirement System